Crop Insurance In Northern Alberta

Alberta

NORTHERN ALBERTA
DEVELOPMENT COUNCIL

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Crop Insurance In Northern Alberta

A POSITION PAPER PRESENTED
TO HEARINGS OF THE CROP
INSURANCE REVIEW PANEL
September, 1986

INDEX

	PAGE
NORTHERN ALBERTA DEVELOPMENT COUNCIL	4
INTRODUCTION	7
TECHNICAL REPORT	9
RECOMMENDATIONS	13
CONCLUSION	16

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The Northern Alberta Development Council is pleased to present this position paper on crop insurance issues as they affect northern Alberta.

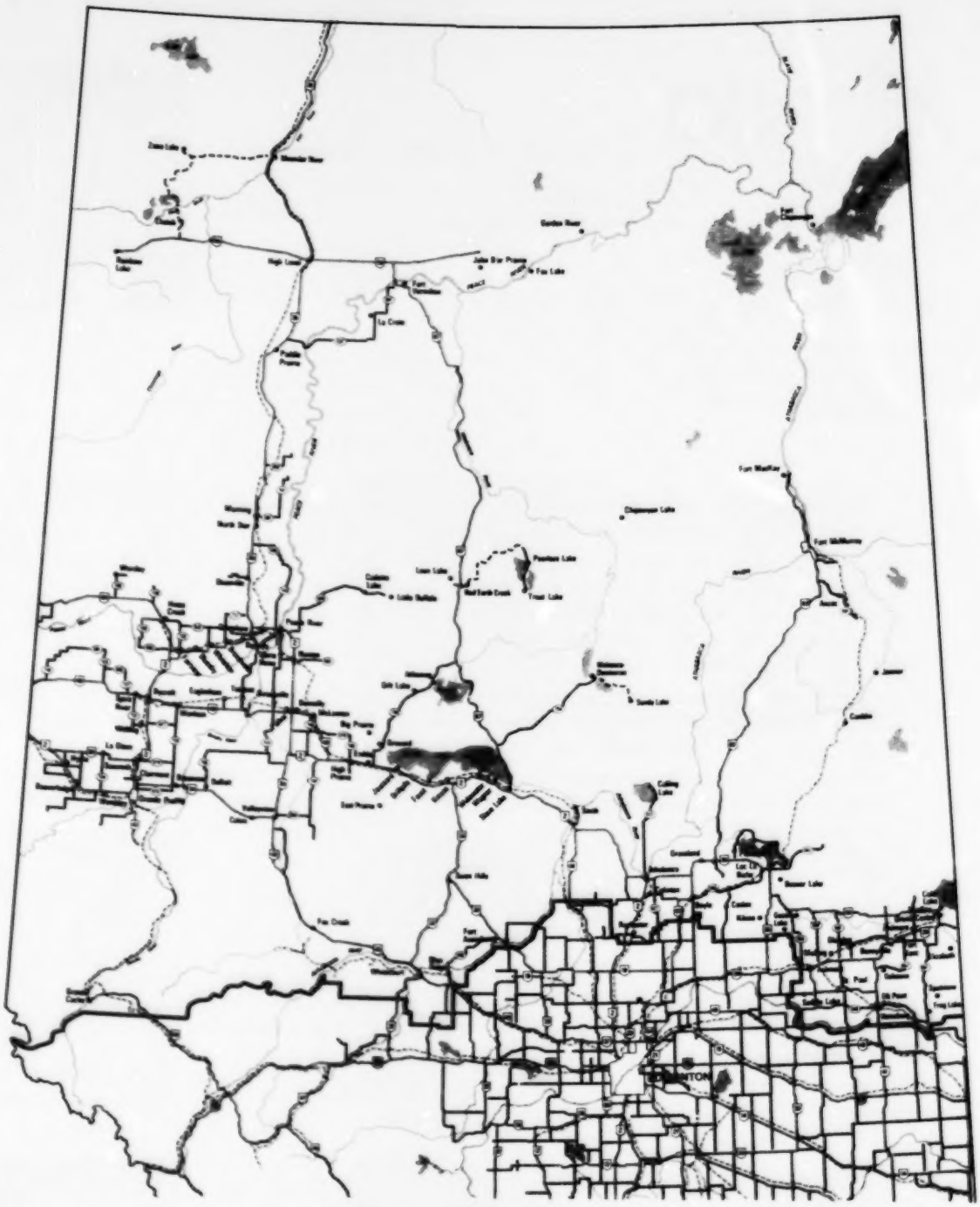
In preparation for the Crop Insurance Review Panel public hearings process, the Council commissioned a major technical report involving a detailed examination of the existing program as it affects northerners plus extensive meetings with farmers from across northern Alberta. The technical report is summarized herein and available upon request from the Northern Development Branch in Peace River.

Agriculture is crucial to the northern economic base. For many northern farmers crop insurance reduces the risk and promotes continuance of this vital industry. Thus northerners are keenly interested in a program which meets their needs.

The Northern Alberta Development Council feels that the recommendations contained in this position paper address the major issues affecting crop insurance and represent the views of the people of the North.

Bob Elliott

Bob Elliott, MLA
Chairman



NORTHERN ALBERTA DEVELOPMENT COUNCIL AREA

(COMMUNITIES WITH POPULATION OVER 1K 1991 CANADA CENSUS)

PRIMARY HIGHWAY — SECONDARY ROAD — L.O.C. ROAD ------ RAILWAY

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INTRODUCTION

The Northern Alberta Development Council (NADC) was established as an advisory body to the Minister Responsible for Northern Development to help in the investigation, planning, promotion and co-ordination of measures to foster economic and social development in northern Alberta. The Council is dedicated to increasing the dialogue and flow of information between the provincial government and the citizens of northern Alberta.

Since 1973, the Council has held more than 80 public meetings, sponsored a number of conferences and seminars and received well over 1700 briefs from northerners.

The Council has identified four objectives which it wishes to promote:

- to enhance economic and educational opportunities within northern Alberta in order to encourage young people to stay;
- to enhance the viability of traditional northern small town and rural life;
- to support the desires and aspirations of all residents in northern Alberta for a fair share in the wealth and potential of the area;
- to support the desires of various cultural and ethnic groups within northern Alberta for maintenance of their distinctive heritage.

The Council has undertaken over 60 major research studies and program reviews, and prepared numerous submissions to the Provincial Cabinet. A number of projects from Council's substantial investigative research into northern issues have related to agriculture. A significant study, for instance, explored the phenomenon of part-time farming and its importance to northern agriculture.

In 1978, an NADC background report, "Agriculture in Northern Alberta", addressed many northern agricultural issues. As a follow-up to the report, the Council sponsored an important conference on northern agriculture. Over 300 northern farmers, industry and government officials, including the Premier, attended the Agriculture North Conference held at Peace River in November of 1978.

In mid-1982, the Northern Alberta Development Council decided to undertake a major survey and research study to examine the topic of new agricultural land development in northwestern Alberta. The Council initiated the review in the belief that futher land development would enhance Alberta's agricultural productivity and result in tremendous community and human development benefits.

The study was focused on northwestern Alberta, as the Peace Block is well recognized as having the most substantial potential for development. A position

paper resulted from the study and was presented in 1983 to the Hearings of the Environment Council of Alberta on Maintaining and Expanding the Agricultural Land Base in Alberta.

In the last few years, the Northern Alberta Development Council has received numerous briefs on the present Hail & Crop Insurance Program in Alberta. Northern Alberta Farmers indicated to the Council the need to make appropriate changes to the program as they apply to the North.

In early 1986, the Provincial Government announced a crop insurance review and the Northern Alberta Development Council struck an advisory committee to assist in the preparation of a position paper for the proposed public hearings. The following representatives were appointed to the Advisory Committee:

Eugene Dextrase, Councillor, Northern Alberta Development Council, High Level

Ted Sonntag, Councillor, Northern Alberta Development Council, Hotchkiss

John Krall, Representative from Agricultural Service Boards, Nampa

Walter Doll, Representative of MD and Counties Association, Fairview

Ed Pawluski, Representative of Improvement Districts, Eaglesham

Ed Persely, Producer, Bonnyville

Brian Sawatzky, District Agriculturist, Peace River

Gerry Archibald, Director Research & Analysis, Northern Development Branch, Peace River

Linda Beltrano, Senior Northern Development Officer, Northern Development Branch, Peace River (Project Chairman)

The Advisory Committee contracted the research firm of Deloitte, Haskins & Sells Associates to prepare a detailed technical report and conduct workshops across northern Alberta. One hundred and fifty-seven farmers were surveyed and 14 workshops were held:

Valleyview	Beaverlodge	Fort Vermilion
Manning	Hawk Hills	Grande Prairie
Falher (2 meetings)	Spirit River	St. Paul
Peace River	Athabasca	Bonnyville
Fairview		

The Northern Alberta Development Council, following lengthy deliberations over the report submitted to the Advisory Committee, produced this position paper. The Deloitte, Haskins & Sells report is to be considered as the technical background report to the paper.

THE TECHNICAL REPORT

The technical report was commissioned to gain insight to the Canada-Alberta Crop Insurance Program and the implications for northern Alberta farmers. Three primary objectives were:

- to review comparable existing programs in other areas of Canada and the U.S.A. and related crop insurance research;
- to undertake a comprehensive survey of northern farmers and Alberta government and agricultural industry professionals to obtain insights to the strengths and weaknesses of the existing program and provide recommendations for improvement;
- to perform a benefit/cost analysis of the current Canada-Alberta Crop Insurance Program as it affects farmers in the NADC area.

The results of addressing these objectives are reported in detail in *Crop Insurance in Northern Alberta Technical Report* (Deloitte, Haskins & Sells, June, 1986). The literature and program review provides background information and a comparison of the Alberta program with others in similar areas. Farmer attitudes and needs were obtained and ranked. A benefit/cost analysis, outlining relative crop insurance contributions and payouts coupled with a case farm scenario approach, was carried out to quantify crop insurance effects on Northern Alberta Development Council farmers. The reader of this paper is encouraged to consult the Technical Report.

Sources of data employed in the study included interviews and discussions with 157 northern Alberta farmers and 23 industry professionals employed in agriculture service or advisory roles. In addition, data and information were provided by the Alberta Hail and Crop Insurance Corporation, Statistics Canada, Alberta Agriculture and the Canadian, Manitoba, Saskatchewan, British Columbia and U.S. government agriculture and crop insurance departments.

Based on the analysis conducted, conclusions have been summarized below for each study section.

Crop Insurance Program Review

The program review showed that all provincial crop insurance plans (B.C., Alberta, Saskatchewan and Manitoba) are quite similar. Differences arise in relative rates charged, efficiency of administration, price levels and method of risk assessment.

From the review of documents and based on limited interviews, it can be concluded that the Alberta Hail and Crop Insurance Corporation offers a program with features very similar to those offered in other provinces. Any differences in

level of producer satisfaction between provinces may be attributed to factors particular to the administration and procedures under each province's jurisdiction.

Producer Survey

A total of 157 farmers were surveyed in 14 locations throughout the NADC area. On-farm interviews and focus-group meetings were employed as the means to collect information.

The questionnaire results are outlined in detail in the Technical Report. However, several points should be reiterated. The producers surveyed represented quite a diverse range of farm sizes, experience levels and income.

The majority of farmers surveyed purchase crop insurance, over 30% of them subscribing to individual coverage. Producers were asked for information on their estimates of crop loss in 1985 and their actual crop insurance payment. Losses averaged $61,300 over a group of 46 producers while the average value of crop insurance payments reported was $22,100. This yields a loss payment ratio of 2.8, meaning estimated actual losses were 2.8 times payment received. Over 63% of the producers making a claim believed the compensation received was not fair.

Most producers considered themselves moderately informed about the current program and options, although 60% of those surveyed thought crop insurance was not a good investment for their farm. In addition, rates were deemed too high and coverage too low. The majority (98%) felt that coverage rates and premiums were not fair for all parts of Alberta and that southern Alberta was getting more benefits. Most producers (71%) surveyed would pay more for crop insurance if it was better designed to meet their needs. Based on questionnaire responses, the five ranked changes they would like to see were:

1. Base coverage on input costs
2. Increase in coverage levels
3. Provision of spot-loss coverage under the all-risk plans
4. Further encouragement of individual coverage
5. Provision of more reward for good experience (through higher coverage and lower premiums)

Industry Interviews

Twenty-three industry professionals (non-Alberta Hail and Crop Insurance Corporation) farmers often visited, for advice on crop insurance decisions were also interviewed. These professionals thought farmers had a negative attitude toward crop insurance. In their opinion, input costs and yields attainable have risen quickly and crop insurance levels have not responded to reflect this. They do,

however, believe crop insurance reduces risk and that producers in high-risk situations would still be advised to insure.

The three main program changes the professionals recommended were:

1. Increase in coverage levels to account for input costs
2. Implementation of individual coverage for all producers
3. Monitoring of program abuse more closely

The first two suggested program changes listed above coincide closely with the suggestions obtained from the questionnaire results and focus-group meetings: increase in coverage based on input costs, and having each farmer on individual coverage. The third recommendation derived from the industry interviews dealt with farmer abuse of the program. This was not as big a concern with the producers themselves.

Producer Focus-Group Findings

Fourteen focus-group meetings were held to gather the majority of producer data for the Technical Report. The focus-group meetings provided two means of obtaining information. Each producer completed a detailed questionnaire on his particular operation. The group was then asked to come to a consensus and rank the items they deemed most important for change. The results of each individual group are listed in the Technical Report. The following set of consolidated program changes was derived:

1. Coverage should be based on input costs.
2. The good experience rating system should be revised.
3. Individual coverage should be expanded.

These items very closely follow the ranking obtained from the questionnaire results discussed previously. A separate discussion was held with a group of northern beekeepers. Their main program concern coincided with Item 1 above — base coverage on input costs rather than on production.

In summary, producers in northern Alberta want a system in place that will assure their input costs. In general, they do not feel that the present program is satisfactory. The suggestions of revising the good experience rewards and increased individual coverage are complementary to this point. Northern producers surveyed want to earn their living from farming and see crop insurance as an input expense with the sole purpose of recovering costs of production. They do not seem concerned that such a plan would work to alleviate both price and yield declines, but rather act as an assured dollar value of inputs.

The requests for improved good performance rewards and a workable individual coverage program were deemed to give more flexibility to the producer and allow independence from conditions on neighboring farms.

Economic Analysis

Several case scenarios were used to generate information on crop insurance costs and conditions for claim. A model farm of 800 acres was used in a partial budgeting method. Without attempting to address specific aspects of crop insurance claims, assessments and payouts, an easy-to-understand approach was developed and yielded some interesting conclusions.

The most important finding showed that considerable cash loss was possible, even at moderate input costs of about $75-per-acre. The levels of coverage currently offered are not meeting the needs of northern producers. From the first five analyses made of the model farm, it does not pay to purchase crop insurance under existing program conditions. This supports interview findings. However, if lower than illustrated yields were obtained, crop insurance would cushion against further losses. The probability of obtaining lower than "margin" yields would have to be assessed by each producer. It was also shown that operational risk increases with specialization, particularly in the Northern Alberta Development Council area where the majority of producers rely largely on grains and oilseeds for their main source of income. Additional research was conducted to illustrate cases for the Red Deer region. The analysis showed that such sizable losses were not possible under the assumptions made, because coverage levels were higher reflecting generally higher expected yields. Crop insurance coverage, often then, falls short of meeting production costs for northern farmers and thus places them at a serious disadvantage.

The economic analysis, using Alberta Hail and Crop Insurance Corporation data, showed that the loss to premium ratio has been higher in southern Alberta between 1981 and 1985 than in the northeast, northwest or Peace River Districts (i.e., the insurance return in the south is higher than the north). This finding, based on the previous five years' data, would support a review of risk and payout differences between regions. The High Risk Subsidy paid by the Provincial Government has consistently favored northern Alberta. This has merely had the effect of equalling out the inherent differences between northern and southern districts relative to the Hail and Crop Insurance Program. Insurance has typically been more expensive relative to coverage in the Peace region as compared to the balance of the province.

NADC RECOMMENDATIONS

Based on the findings of the technical report and extensive internal discussion, the Northern Alberta Development Council recommends the following:

Recommendation 1

Individual coverage should be made more attractive for producers.

Producers indicated a need for a program which would be tailored to meet their individual requirements. Current coverage is considered too low. Producers should be encouraged to ensure 100% of their production yet they should not be penalized for so doing through crop averaging.

Individual coverage programs could assist in identifying good experience, unique land capabilities, etc.

New farmers to the program should also be encouraged to begin individual coverage with retroactive compensation after their initial 5-year averaging period is completed.

Recommendation 2

Coverage should be based on input costs, allowing more flexibility for producers to insure to the level they wish with producer and farm capabilities taken into consideration.

At present, coverage does not reflect the amount of producer dollar input, only eventual bushels-per-acre.

Recommendation 3

The "good experience" rating system should be revised to provide more reward to those producers with a good record of performance. Acts of God in a single year should not eliminate several years of good experience at a rate faster than 25% per year.

A reward system for good management and experience could result in a reduction in performance abuse. Producers indicated concern over abuse of the program and suggested various changes noted in the recommendations herein that would assist in the reduction of misuse of the program.

Recommendation 4

Spot-loss coverage should be allowed under the Crop Insurance Plan.

At present, the total acreage of each crop is averaged to estimate yield. Owing to the large size and fragmented distribution of many northern farms, climatic variations on a micro-scale and distances between fields (often less than nine

miles but more than two) crop averaging reduces the viability of the program for northern producers.

Recommendation 5

The plowdown policy should be reviewed to allow plowdown if the crop is not economical to harvest between July 1 and August 1. This plowdown should result in a summerfallow classification.

This may be achieved through earlier assessment and establishing minimum yield levels that would be considered inadequate to cover harvesting costs in the North.

Recommendation 6

A payment for snowed under crops should be made within the calendar year. Farmers should be allowed an advance on the balance of the snowed under crop.

Implementation of this recommendation would greatly ease a farmer's cash flow problem. Late payment is a problem specific to northern farmers since they continuous-crop.

Recommendation 7

A review of insurance rates should be conducted.

Many farmers feel current rates are considered too high for existing coverage provided. Yet, many are willing to pay higher premiums for increased coverage if it would cover input costs.

Recommendation 8

A complete revision of program dates by crop should be considered, recognizing possible regional variations.

In addition to the plowdown date mentioned in Recommendation 5, seeding dates should be revised forward, the crop insurance payment deadline should be moved to a later date (perhaps November 30), and the crop election deadline is deemed to be too early. The entire crop election process is dubious and warrants review.

Recommendation 9

If the All Risk program is to be continued in the North, the area should be divided into smaller regions with recognition given to climatic variations and soil productivity.

The North is classified into two large regions yet within northern Alberta there are very distinct sub-regions which do not experience characteristics similar to

the whole. Small regional units would assist those farmers in the all risk programs, especially when considering averaging policies.

Recommendation 10

More information should be supplied to producers.

There exists a real need to disseminate more information on the crop insurance program, its options and associated policies and procedures. At the NADC review workshops, producers revealed varying degrees of program awareness. Producers were often confused as to program specifics and the benefits of the program were not widely known. A great deal of "hearsay" and speculation surrounds crop insurance. Several producers would like to see workshops held which would highlight pros and cons of the program.

CONCLUSION

The Crop Insurance Review Panel is encouraged to review this position paper and the technical report in detail and to recognize in particular, that the North is unique. The existing Canada-Alberta Crop Insurance Program has several shortcomings for northern farmers and we would ask that any revisions to the program correct for these disadvantages in order to facilitate higher northern participation.

The Northern Alberta Development Council understands that it will take time to make the several needed revisions to the Canada-Alberta Crop Insurance Program. It is further understood that more research to test the workability of several options may be needed. However, the Council would urge the Provincial Government to proceed with implementation of changes without undue delay.